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SUBJECT: NORWAY'S ECONOMY STANDS STEADY

REF: OSLO 544

¶1. Summary: Energy-rich Norway continues to weather the international financial storm. The banking sector remains stable, with the GON cutting interest rates and instituting a bail-out package stressing credit guarantees. The GON is also assisting Iceland with a loan of up to 500 million euros (660 million USD). End Summary.

Economy Hangs In

¶2. Norway's economy remains stable. Norway's banking sector, unlike many other European countries, has not been exposed to significant debt losses, mainly due to the GON's stringent regulations. No Norwegian banks have been declared insolvent, or sold. (Note: In the 1990s, a banking crisis hit Norway, with the country then acquiring the debts of DnBNor, Norway's largest financial institution). The resultant immediate liquidity shortage has, however, impacted the Oslo Stock Exchange. During the height of the global credit crisis, the Exchange's values plummeted by nearly 1/3, with inter-bank lending rates rising to unprecedented levels as banks struggle to secure immediate funding. Amidst these moves, the GON's approximately 400 billion USD sovereign wealth fund, the Norwegian Pension Fund (Global), continues to seek investment opportunities in international markets (reftel).

The GON Acts

¶3. The GON announced a bail-out package on October 12, seeking to restore confidence and stability in the banking sector. Rather than increasing its ownership stake in banks, the government opted to guarantee credit. The GON offered Norwegian banks government bonds worth approximately 350 billion NOK (52 billion USD) for up to 3 years, in exchange for bonds secured in Norwegian mortgages. As a second measure, the Norwegian Central Bank (Norges Bank) will offer small-scale banks fixed-interest rates over a two-year period.

¶4. On October 15, the Bank cut interest rates by half a percent, with rates now at 5.25 percent. Inter-bank lending rates have fallen, as expected. Consumer lending rates are not expected to be lowered for some time. (Note: The GON budget was announced on October 7, days before the bail-out package. No word yet whether it will be adjusted, given recent events and lower 2009 growth projections).

Brother, Can You Spare a Kroner?

¶5. Norway extended 200 million euros (264 million USD) to

Iceland, a revolving loan capped at 500 million euros (660 million USD). Commentators and media publicly questioned why Norway did not move to assist Iceland earlier. The Finance Ministry stated in media that financial assistance to Iceland would be based on commercially-practicable terms.

WHITNEY